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April 2, 1998

**BY HAND DELIVERY**

**EX-PARTE LETTER**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

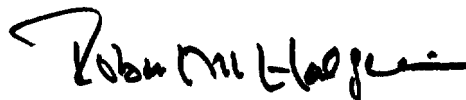
Re: Report to Congress -- CC Docket No. 96-45

Dear Ms. Salas:

This letter is being filed, in duplicate, to report that a copy of the attached letter was sent today by John W. Katz, Special Counsel to the Governor and Director, State-Federal Relations for the State of Alaska, to Commissioner Ness.

In the event there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,



Robert M. Halperin  
Counsel for the State of Alaska

Enclosure

cc: Commissioner Susan Ness  
John W. Katz

1487996

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TONY KNOWLES  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
WASHINGTON, D.C.

April 2, 1998

**BY HAND**

Commissioner Susan Ness  
Federal Communications Commission  
1919 M Street, N.W.  
Room 832  
Washington, DC 20554

Re: Report to Congress -- CC Docket No. 96-45

Dear Commissioner Ness:

I read with interest your speech earlier this week to the Information Technology Association of America. In your remarks you discussed the issue of whether information service providers (ISPs) should be viewed as telecommunications providers and be required to make universal service contributions.

We appreciate your willingness to address this difficult subject, and to work toward a solution that assures that universal service support is, and remains, predictable and sufficient, as the statute requires. One of the points you mentioned is that some emerging services provided by ISPs -- like internet telephony -- are essentially telecommunications services and should be treated as such. This is the position set forth on pages 7-10 of the State of Alaska's comments on the Report to Congress. Those comments were filed with the Commission on January 26, 1998. A copy of the State's comments is enclosed for your further consideration.

Again, thank you for your efforts to seek a solution to this matter, which is so important to all Alaskans.

Sincerely,

A handwritten signature in cursive script that reads "John W. Katz".

John W. Katz  
Director, State/Federal Relations  
Special Counsel to the Governor

Enclosure  
1487992

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C.

**RECEIVED**

JAN 26 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
 )  
Federal-State Joint Board ) CC Docket No. 96-45  
on Universal Service ) (Report to Congress)

**COMMENTS OF THE STATE OF ALASKA**

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January 26, 1998

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## SUMMARY

In preparing its report to Congress, the Commission should focus on the essential nation-building purposes for which Section 254 of the Communications Act of 1934, as amended, was enacted: to increase the availability and affordability of telecommunications services to *all* Americans, including those in rural and high cost areas, and to America's schools, libraries and rural health care providers.

The State recognizes that federal universal service funds should be no larger than necessary to accomplish the purposes Congress intended. However, in enacting section 254, Congress decided that universal service is a critically important national and nation-building policy, as Chairman Kennard has recently recognized. The following comments are offered in response to two specific issues raised by Congress.

With respect to the third issue (who should contribute to universal service funds), the Commission should seek to assure the broadest possible base for universal service contributions. Such an approach minimizes the burdens imposed on any single class of contributors. The Commission has decided that information service providers ("ISPs"), including Internet service providers, should not be required to contribute to federal universal service support mechanisms because they are not currently providing telecommunications. Some ISPs have announced plans to provide telecommunications. When an ISP provides telecommunications services, it should be required to contribute to universal service funds. Moreover, such contributions would be necessary, at that time, to assure that federal

universal service support mechanisms would be sufficient, predictable, and competitively and technologically neutral. The Commission should advise Congress that it will monitor this situation closely.

With respect to the fifth issue (what percentage of costs in high-cost areas should be supported by federal universal service support and from what revenue base should such support be derived), the Commission's decision to limit federal support to 25 percent of the amount necessary to serve high-cost areas is contrary to the statute and Congressional intent. A universal service program that requires each State to generate on its own most of the universal service support needed in that State defeats the program's essential purpose because it would require significant increases in local service rates. Congress did not intend for its universal service policies to result in increases in rates for basic telecommunications services. The national universal service policy requires a national universal service fund sufficient to accomplish its intended purpose.

The Commission should also base universal service contributions for high cost areas on intrastate and interstate revenues of interstate telecommunications carriers. This approach will assure that universal service contributions are sufficient, predictable, equitable and nondiscriminatory, just as Congress required. The broadest possible universal service funding base will minimize the burden on any one set of telecommunications service consumers or providers.

The State of Alaska's position is echoed by the Western Governors Association ("WGA"). As Chairman, Alaska Governor Tony Knowles led the effort

by WGA to adopt a policy urging the Commission to provide a fully-funded federal universal service fund. The fund would support service to high-cost areas and would be supported on an equitable and nondiscriminatory basis by contributions from all telecommunications providers. In addition, the Commission's Local and State Government Advisory Committee recently adopted a resolution supporting the State's position. Lt. Gov. Fran Ulmer is co-chair of that Committee's universal service subcommittee.

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C.

In the Matter of	)	
	)	
Federal-State Joint Board	)	CC Docket No. 96-45
on Universal Service	)	(Report to Congress)

**COMMENTS OF THE STATE OF ALASKA**

The State of Alaska ("the State" or "Alaska") agrees with much that the Commission has done in its orders implementing the universal service provisions of the Telecommunications Act of 1996 ("the Act"). However, the State is concerned that certain steps the Commission has taken are fundamentally at odds with the Congressional goals of increasing access to, and affordability of, telecommunications services to Americans living in rural and high cost areas, and to America's schools, libraries and rural health care providers. In considering the issues on which Congress has requested a report, the Commission should focus on the essential nation-building purposes for which section 254 of the Communications Act of 1934, as amended, was enacted. When it does, the Commission will recognize the need (1) to assure the broadest possible base for universal service contributions; and (2) to provide federal universal service support in rural and high-cost areas that is adequate to assure that rates for basic telecommunications services are affordable and do not increase as a result of the Commission's universal service policies.



I. **THE COMMISSION SHOULD RECOGNIZE  
THAT CONGRESS CREATED A HISTORIC  
NATIONAL AND NATION-BUILDING POLICY**

In enacting the universal service provisions of the Act, Congress created a national and nation-building policy of historic proportions. For the first time, Congress required the Commission to take steps to make basic telecommunications services affordable for *all* Americans, particularly those residing in rural and high cost areas. Congress said that:

Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.<sup>1</sup>

The importance of affordable telecommunications is particularly great in states such as Alaska, where telecommunications are the essential lifeline connecting remote communities to larger population centers and to the Nation as a whole:

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<sup>1</sup> 47 U.S.C. § 254(b)(3).

Senator Hollings, the ranking minority member of the Senate Commerce Committee, reiterated this point in the final debates on the Telecommunications Act of 1996: "The need to protect and advance universal service is one of the fundamental concerns of the conferees in drafting this conference agreement. Universal service must be guaranteed; the world's best telephone system must continue to grow and develop, and we must attempt to ensure the widest availability of telephone service." 142 Cong. Rec. S688 (daily ed. Feb. 1, 1996).

I come from a State, Mr. President, one-fifth the size of the United States. It is rural in nature. We have a small population. We have people in our State who are just now getting telephone service as known to the rest of the country for the whole century, almost. Now what we have assured here, as this program goes forward, is that universal service will be available to rural areas. It will be the state-of-the-art telecommunications system. It means that telemedicine will come to my State.

My State, when I first came here, had no assistance whatever for people in small villages. They had to find their way to Indian hospitals in regional areas. We created a system of clinics. Those clinics are by and large, operated by young women from the villages who have a high school education and some technical training now. This bill means telecommunications will bring telemedicine in. They will be able to have a direct exposure of patients to doctors miles and miles away. They will be able to get assistance in dealing with mothers who have complications in pregnancies.

. . . . [R]ural America will come into the 21st century with everyone else as far as telecommunications in concerned.<sup>2</sup>

Indeed, the Commission recognized the importance of the public policy in favor of universal service even prior to 1996:

For the individual, telephone connectivity provides access to emergency services, to job opportunities and, through computer connections, to a host of educational opportunities. At the same time, increasing subscribership benefits all Americans by improving the safety, health, education and economic well-being of the nation. Thus, we recognize that our universal service policies may now have greater societal consequences than in the past.<sup>3</sup>

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<sup>2</sup> 142 Cong. Rec. S691-92 (daily ed. Feb. 1, 1996) (remarks of Sen. Stevens).

<sup>3</sup> *Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network*, Notice of Proposed Rulemaking, CC Docket No. 95-115, 10 FCC Rcd. 13,003, 13,004 at ¶ 4 (1995).

As Chairman Kennard recently stated, universal service is critical to the survival of rural America. After discussing how towns that were bypassed by the Interstate Highway System became ghost towns, he stated:

Well, like those conventional highways, the Information Highway of today can bring us together as a Nation, or divide us. It can connect small and rural communities in the world of commerce and culture, or it can leave them behind. It is the most important factor in the economic development of our time.

....

I believe universal service is about economic development. It involves the fundamental policy of our country to reinvest in the telecommunications network so that all Americans remain connected. It is every bit as important as the investment that we made as a Nation in our interstate highway system.

Universal service is about economic development for every American, whether you live in a big city or a small rural community. So it means that if you are a livestock broker in Chicago, you can grow your business by using the network to reach ranchers in Missoula, Montana. And it also means that if you are a computer company in South Dakota, you can grow your business by selling CD ROMS to customers in New York City, just like Gateway 2000 does every single day.<sup>4</sup>

Congress also took historic steps to promote the delivery of telecommunications services to America's schoolchildren, libraries, and rural health care providers. In section 254(h), Congress required that the Commission implement a program to ensure that schools, libraries, and rural health care providers obtain telecommunications and related services at a discount or at other

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<sup>4</sup> Remarks by William E. Kennard, Chairman, Federal Communications Commission, to Organization for the Promotion and Advancement of Small Telephone Companies, January 12, 1998, Fort Lauderdale, Florida. "Keeping America Connected" at 2, 4 (as prepared for delivery).

favorable rates. Through this provision, Congress intended to promote the delivery of modern telecommunications throughout the Nation, particularly to those areas where these services might not otherwise be deployed. As the Joint Committee on Conference explained:

The ability of K - 12 classrooms, libraries, and rural health care providers to obtain access to advanced telecommunications services is critical to ensuring that these services are available on a universal basis. The provisions of subsection (h) will help open new worlds of knowledge, learning and education to all Americans -- rich and poor, rural and urban. They are intended, for example, to provide the ability to browse library collections, review the collections of museums, or find new information on the treatment of an illness, to Americans everywhere via schools and libraries. This universal service will assure that no one is barred from benefitting from the power of the Information Age.<sup>5</sup>

The State recognizes that federal universal service support programs should be no larger than necessary to accomplish their intended purposes. The Commission should, therefore, refocus its attention on these principle purposes of section 254. In that light, it should keep two simple, but fundamental, points in mind.

First, it would be arbitrary and capricious, stand the intent of Congress on its head, and be contrary to sound public policy for the Commission, acting under a law that intends as a primary purpose to protect and promote universal service, to take steps that would increase rates for basic telecommunications services in

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<sup>5</sup> H.R. Rep. 104-458, 104th Cong., 2d sess. Joint Explanatory Statement of the Committee of Conference at 132-33 (January 31, 1996).

rural and high-cost areas or deny support for telecommunications services to the schools, libraries, and rural health care providers that need it most.

Second, because it is a national and nation-building policy, universal service must be implemented through a nation-wide program. Congress clearly intended that all Americans, regardless of where they reside, obtain affordable telecommunications services and access to information services.<sup>6</sup> Like Chairman Kennard, Congress recognized that expanding subscribership and use of the telecommunications network benefits all Americans.<sup>7</sup>

These points lead to the conclusion that the funding for federal universal service programs must be as broadly based and stable as possible and be sufficient to maintain the affordability of rates for basic telecommunications services and accomplish the other purposes Congress intended. As set forth below, the State believes that these conclusions are particularly relevant to the third and fifth items the Commission is to address in its Report to Congress.

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<sup>6</sup> 47 U.S.C. § 254(b)(1), (2), (3), (6).

<sup>7</sup> As Senator Dorgan concisely stated in the final debate:

"A telephone in the smallest city in North Dakota or the smallest town in North Dakota is as important as a telephone in lower Manhattan in New York because one makes the other more valuable."

142 Cong. Rec. S690 (daily ed. Feb. 1, 1996)

**II. UNIVERSAL SERVICE CONTRIBUTIONS  
SHOULD BE AS BROADLY BASED AND  
STABLE AS POSSIBLE**

The third item the Commission is to address is "who is required to contribute to universal service under section 254(d) of the Act and related existing Federal universal service support mechanisms, and of any exemption of providers or exclusion of any service that includes telecommunications from such requirement or support mechanisms."

Section 254(d) of the Act provides as follows:

Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service. The Commission may exempt a carrier or class of carriers from this requirement if the carrier's telecommunications activities are limited to such an extent that the level of such carrier's contribution to the preservation and advancement of universal service would be de minimis. Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.<sup>8</sup>

In its May 7, 1997, Report and Order, the Commission declined to treat information service providers ("ISPs"), including Internet service providers, as telecommunications carriers who must make universal service contributions. The Commission based its decision on the conclusion that ISPs were not providers of telecommunications.<sup>9</sup>

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<sup>8</sup> 47 U.S.C. § 254(d).

<sup>9</sup> *Federal-State Joint Board on Universal Service*. Report and Order, 12 FCC Rcd. 8776, 9179-80 at ¶¶ 788-89 (1997).

Developments since last May demonstrate that the time will come, and perhaps come shortly, when some ISPs are indeed providing telecommunications. As the Commission well knows, there is increasing evidence that the Internet is being used to carry communications that traditionally have been carried over the public switched telephone network. One firm has recently announced plans to introduce Internet Protocol telephony service for long distance traffic in nine cities this month, 25 cities by this summer, and 125 cities by next year.<sup>10</sup> Another firm has already unveiled an Internet-based service "to divert fax messages from the traditional public switched voice networks" to its Internet network.<sup>11</sup> Both firms contend that their Internet-based services will be less costly than their public switched network competitors.

When an ISP becomes more than a *de minimis* provider of telecommunications, the Commission should require it to contribute to universal service support mechanisms for several reasons. First, the Act mandates that "Every telecommunications carrier that provides interstate telecommunications services" contribute to universal service funds and permits the Commission to require other providers of telecommunications to contribute as well.<sup>12</sup> If an ISP provides "telecommunications for a fee directly to the public, or to such classes of

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<sup>10</sup> "QWEST to Offer Internet-Like Long Distance Services." COMMUNICATIONS DAILY, December 16, 1997, at 2-3.

<sup>11</sup> "UUNET Unveils Internet-Based Fax Service for Business." TELECOMMUNICATIONS REPORTS, July 14, 1997 at 24.

<sup>12</sup> 47 U.S.C. § 254(d).

users as to be effectively available directly to the public," it is a telecommunications carrier.<sup>13</sup> If it is providing telecommunications, an ISP should not be exempted from contributing to universal service mechanisms merely because it offers other, non-telecommunications services as well.

Second, Congress has clearly required that the Commission establish "specific, predictable and sufficient" mechanisms to preserve and advance universal service.<sup>14</sup> It is in the public interest to broaden the base of universal service contributions as much as possible because a broader base both minimizes the burdens on each contributor and makes universal service support more predictable and sufficient. When the Internet is used to a significant extent for communications that traditionally have been transmitted over the public switched network, the base for universal service funding will diminish unless ISPs providing these services are required to contribute. The requirement for "predictable and sufficient" support would then not be satisfied. Universal service costs would increase because of the loss of economies of scope and scale, and the burdens of those costs would increasingly fall on fewer and fewer users. Universal service support would then increasingly become a burden to be borne only by the "telecommunications middle class" and not by all telecommunications users.

Third, when an ISP provides telecommunications, any absence of universal service support obligations would create an undue economic advantage of a purely

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<sup>13</sup> 47 U.S.C. §§ 153 (44), (46).

<sup>14</sup> 47 U.S.C. § 254(b)(5).



regulatory nature for the Internet-based service. The Commission has adopted a principle of competitive neutrality in this docket, recognizing that universal service support and contribution requirements should not favor one provider over another or one technology over another.<sup>15</sup> The State believes that this principle requires an ISP to contribute to universal service support mechanisms once it provides telecommunications.

Fourth, such contributions are not inequitable. The universal service provisions of the Telecommunications Act of 1996 benefit ISPs in several respects, including providing support for the services they offer to eligible schools, libraries and rural health care providers. For example, the availability of federal support will increase the revenues of ISPs by making their services 20-90% less expensive for schools and libraries. It is not unreasonable, therefore, to require ISPs providing telecommunications to contribute to universal service funds.

For these reasons, the Commission should closely and regularly monitor the situation to determine if and when an ISP meets the threshold of providing telecommunications, and then require it to contribute to universal service support mechanisms.

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<sup>15</sup> *Federal-State Joint Board on Universal Service*. Report and Order, 12 FCC Rcd. at 8801, ¶ 47.

**III. FEDERAL UNIVERSAL SERVICE SUPPORT MUST BE INCREASED TO COVER MORE THAN 25% OF THE COST OF PROVIDING SERVICE IN HIGH-COST AREAS**

The fifth item on which the Commission must report concerns its "decisions regarding the percentage of universal service support provided by federal mechanisms and the revenue base from which such support is derived." Federal universal service support must be adequate to preserve and advance universal service in high-cost areas, particularly in offshore points such as Alaska. The Commission should tell Congress that it will reconsider its rules and not limit federal universal service support to 25% of the high costs of providing basic telecommunications services. At a minimum, the Commission should provide for federal universal service support sufficient to maintain current rates for basic telecommunications services.

The Commission has decided to require States to fund 75% of the high costs of providing basic telephone service in high-cost areas. The sole basis for the Commission's determination to limit the federal share of high-cost support to 25% was that local loop costs are the predominant costs that vary from high-cost to low-cost areas, and that 25% was the separations factor for allocating loop costs between the jurisdictions (*i.e.*, interstate revenue requirements include 25% of local loop costs, while intrastate revenue requirements include 75% of local loop costs).<sup>16</sup>

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<sup>16</sup> *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd. at 8925, ¶¶ 269-70.

Yet, this limitation is both illogical and inconsistent with Congressional intent and prior Commission decisions. Universal service support is historically covered up to 100% of local loop costs to the extent such costs exceeded national averages. Thus, local exchange carriers with the highest local loop costs had far more than 25% of their local loop costs reimbursed by federal support mechanisms.<sup>17</sup> Indeed, the primary purpose of the universal service fund was *precisely* to provide federal support to cover more than 25% of local loop costs. It is thus illogical to limit federal universal service support to 25% on the basis of the historical separations factor.

Moreover, this action is inconsistent with the Act. Section 254(b)(5) states, as a guiding principle, that "There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service." This principle requires that the Commission not *reduce* universal support where it is needed most because such an action is flatly contrary to the requirement to "preserve and advance universal service."

The legislative history of the Act indicates that Congress did not intend to eliminate the support provided under existing universal support mechanisms. The Senate bill, which was the basis for the universal service sections of the Telecommunications Act, was clear on this point. Section 103(d) provided "Nothing in the amendments made by this Act to the Communications Act of 1934 shall affect the Commission's separations rules for local exchange carriers or

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<sup>17</sup> See 47 C.F.R. § 36.631.

interexchange carriers in effect on the date of enactment of this Act."<sup>18</sup> There is nothing in the Telecommunications Act itself, the Joint Explanatory Statement of the Committee of Conference, or the House Bill to the contrary. Indeed, several Senators noted that the maintenance of existing universal service support was critical.<sup>19</sup>

A universal service program that requires each State to generate most of the universal service support needed in that State defeats the essential purpose of universal service support because it would put an inequitable burden on high-cost states by requiring significant increases in local service rates in only those states. Indeed, as reconsideration petitions filed with the Commission demonstrate, the Commission's decision would appear to require surcharges on intrastate rates of as much as 45 percent resulting in intrastate rate increases of as much as \$20.57 per

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<sup>18</sup> 141 Cong. Rec. S8570, S8575 (daily ed. June 16, 1995).

<sup>19</sup> As Senator Dorgan stated:

"The lack of universal opportunity and universal services is very troublesome. That is why we have a universal service fund. This conference report protects that and does so in a meaningful way."

142 Cong. Rec. S690 (daily ed. Feb. 1, 1996) (statement of Sen. Dorgan).

Sen. Dominici added:

"This legislation explicitly preserves the universal service fund which subsidizes telephone services to rural areas."

*Id.* at S703 (statement of Sen. Dominici).

month on every line in a particular state!<sup>20</sup> Increases on the order of \$10 per month would be necessary in Alaska.<sup>21</sup> Such a result is plainly inconsistent with both the express language of section 254 and Congressional intent.

The State also believes that the Commission should return to the recommendation of the Joint Board and base universal service contributions for high cost areas on intrastate and interstate revenues of interstate telecommunications carriers.<sup>22</sup> This approach will assure that universal service contributions are sufficient and predictable, as well as equitable and nondiscriminatory, just as Congress required.<sup>23</sup> As we stated in section II of these comments, the broadest possible universal service funding base will minimize the burden on any one set of telecommunications service consumers or providers.

This approach has several other advantages. If the Commission, as it should, concludes that a federally administered fund should be adequate to support basic telecommunications services in all parts of the Nation and bases contributions on both interstate and intrastate revenues, there will be less of a need for State-administered universal service programs. This result will minimize

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<sup>20</sup> Petition for Reconsideration and Clarification of the Vermont Public Service Board at Attachment A (July 17, 1997).

<sup>21</sup> Petition for Reconsideration and Request for Clarification of the Alaska Telephone Association at 2 (increases in local rates of \$8-\$10 per month would be necessary for every access line in Alaska) (July 17, 1997).

<sup>22</sup> See Petition for Reconsideration by Wyoming Public Service Commission at 4-5 (July 16, 1997); Petition for Reconsideration and Clarification of U S West, Inc. at 2-9 (July 17, 1997).

<sup>23</sup> 47 U.S.C. §§ 254(b)(4), (5).

burdens on States. It will also minimize the need for carriers (including commercial mobile radio service providers) to distinguish between interstate and intrastate traffic for universal service contribution purposes, and minimize any incentive for carriers to misclassify the jurisdictional nature of their traffic.

The State of Alaska's position is echoed by the Western Governors Association ("WGA").<sup>24</sup> As Chairman, Alaska Governor Tony Knowles led the effort by WGA to adopt a policy urging the Commission to provide a fully-funded federal universal service fund which would support service to high-cost areas and that would be supported on an equitable and nondiscriminatory basis by contributions from all telecommunications providers.

In addition, the Commission's Local and State Government Advisory Committee ("LSGAC") recently adopted a resolution which also supports the State's position that the Universal Service Fund should provide 100% of the support required for high-cost areas. Alaska Lt. Gov. Fran Ulmer is Co-Chair of the LSGAC universal service subcommittee. The LSGAC cited that the obligation of states to pay 75% of the support will lead to significant increases in intrastate telephone service rates and will undermine the basic principles of Universal Service. The State understands that the LSGAC has filed a copy of its resolution with the Commission.

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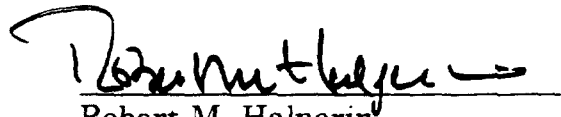
<sup>24</sup> A copy of the WGA Resolution on universal service is attached.

#### IV. CONCLUSION

The Commission should use the opportunity provided by Congress to refocus on the essential nation-building purposes of Congress's landmark action in enacting the universal service provisions of the Telecommunications Act of 1996. It should commit itself to promoting the affordability of basic telecommunications services to all Americans, particularly those living in rural and high-cost areas, and to facilitating the delivery of basic and advanced telecommunications services to schools, libraries and rural health care providers in those parts of the Nation where assistance for those services is needed most.

Respectfully submitted,

THE STATE OF ALASKA



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444 North Capitol Street, N.W.  
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January 26, 1998

**SPONSORS:** Governors Schafer and Knowles  
**SUBJECT:** National Universal Service Fund for all High Cost Telecommunications Customers

**A. BACKGROUND**

1. This nation has benefited greatly from policies that are fundamentally rooted in national support for infrastructure investment in critical areas, such as water resources, airports, highways and communications.
2. Since the passage of the Communications Act of 1934, it has been a major public objective of the United States that all Americans, regardless of where they live, have access to quality local phone service at reasonable and affordable rates.
3. Congress in the Telecommunications Act of 1996 continued and strengthened this commitment by giving the Federal-State Joint Board on Universal Service and the Federal Communications Commission (FCC) the authority to recommend and implement policies that ensure the preservation and advancement of universal service.
4. The FCC's May 1997 decision raises serious questions about the future of universal telecommunications service in America and the affordability of that service for rural, high-cost customers.
5. The FCC's decision did address some important policy issues by establishing a \$2.25 billion per year fund for schools and libraries; establishing a \$400 million per year fund for rural and island territory health care providers; and allowing small rural and island territory telephone companies to continue receiving federal high-cost support from the current universal service fund through 2001.
6. The FCC postponed until at least 1999 any decision on establishing a high-cost fund for two-thirds of the Nation's rural and island territory customers who are served by large telecommunications companies.
7. The proposed federal high-cost fund will only cover 25 percent of the high costs while the remainder of the support (75 percent) for high-cost, rural and island territory customers must come from state universal service or high-cost funds.



8. The cost to serve customers in the West is higher than anywhere else in the country and universal service for all Americans, particularly in the West, is in jeopardy unless the FCC addresses the need for a fully funded national high-cost fund in a timely and equitable manner.

**B. GOVERNORS' POLICY STATEMENT**

1. The Western Governors strongly urge the Federal-State Joint Board and the FCC to immediately establish (prior to or concurrent with any reduction or elimination of existing support) a fully funded national universal service fund accessible by eligible telecommunications companies, as defined by the Act, providing service in high-cost areas that is supported on an equitable and nondiscriminatory basis through contributions by all telecommunications providers.

**C. GOVERNORS' MANAGEMENT STATEMENT**

1. WGA shall transmit this resolution to the chairman of the Federal Communications Commission.
2. WGA staff are to report to the Governors on the actions taken by the FCC related to this matter.